

VZCZCXRO5724
OO RUEHDBU
DE RUEHKB #1311/01 3051307

ZNY SSSSS ZZH
O 011307Z NOV 07
FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4142
INFO RUCNCIS/CIS COLLECTIVE IMMEDIATE
RUEHAK/AMEMBASSY ANKARA IMMEDIATE 2426
RUEHIT/AMCONSUL ISTANBUL IMMEDIATE 0081
RHMFIS/CDR USEUCOM VAIHINGEN GE IMMEDIATE
RUEAIIA/CIA WASHINGTON DC IMMEDIATE
RUEKJCS/SECDEF WASHDC IMMEDIATE

S E C R E T SECTION 01 OF 05 BAKU 001311

SIPDIS

SIPDIS
NOFORN

FOR EUR A/S FRIED FROM AMBASSADOR DERSE

E.O. 12958: DECL: 10/31/2017
TAGS: PREL PHUM KDEM ENRG PINR PBTS IR RU AJ
SUBJECT: SCENESETTER FOR EUR A/S FRIED'S NOVEMBER 3-5 VISIT
TO BAKU

REF: A. BAKU 1226

1B. BAKU 1217
1C. BAKU 689

Classified By: Ambassador Anne E. Derse per 1.4 (b,c,d).

11. (S) Summary: Dan, your visit could not come at a better time. With the ongoing security threat to the Embassy, your visit will underscore that we continue to engage actively, and at high levels. In the first place, it will be important to reinforce with this government that Azerbaijan's contributions on security and energy are valued in Washington. Your offer to brief on the Missile Defense and CFE discussions will be welcome. Against that backdrop, we have important messages on democratic reform that we would like you to deliver. Azerbaijan's progress on democracy and human rights issues has been disappointing, with serious backsliding in the media environment. President Aliyev regularly tells senior U.S. officials that he understands that the relationship must move forward in all three areas -- security, energy, and reform. Some progress has been made, but overall, his government's actions on political reform since the 2005 parliamentary election have been halting. Growing social and political pressures -- including small, but growing numbers of domestic extremists -- underscore the need for Azerbaijan to move more quickly on its political and economic reform agenda. Regional dynamics appear to be conditioning Aliyev's thinking on reform. Your visit offers a timely opportunity to explore Aliyev's current thinking.

12. (C) Summary Continued: President Aliyev needs to hear a considered message from a senior U.S. official about the bilateral relationship, underscoring our interest and highlighting areas for potential expanded cooperation, as well as areas which need more GOAJ attention. The lead-up to Azerbaijan's October 2008 presidential election presents an opportunity for Aliyev to correct negative trends and make important progress in establishing the institutions required to secure Azerbaijan's long-term stability and prosperity, and lay the foundation for enhanced bilateral cooperation. Strong U.S. advocacy and encouragement will be needed to help convince Aliyev to take steps toward democracy; serious incentives - including a vision of how the relationship could evolve after the election - must also be considered. End summary.

Azerbaijan's Changing Context

13. (C) Since your lastvisit to Baku, Azerbaijan has begun to feel the effects of the USD 250 billion in energy revenue it is expected to earn over the next 15-20 years. Azerbaijan's dizzying 29 percent GDP growth is evient in the number of luxury cars, high-rise apartment buildings and trendy boutiques springing up all over Baku. Azerbaijan's new wealth has also given President Aliyev and his Cabinet a new-found sense of confidence that is being reflected in a growing reluctance to embrace outsiders' advice, including some Western policy prescriptions. The accompanying social pressures wrought by Azerbaijan's uneven income distribution are less apparent, but they exist and are growing. Workers are pouring in from all over the country to seek jobs in Baku's booming and largely unregulated construction sector, while Azerbaijan's rural economy contracts and withers. Small protests are popping up periodically in Baku, as low-income tenants are being evicted from their homes to make way for new high-rises. Analysts from across the political spectrum fear that Azerbaijanis' growing religiosity --

normal in a state still emerging from decades of Soviet rule -- could turn into a nascent extremist movement if growing corruption and income disparities are not rapidly addressed, and if the GOAJ continues its current, tight control of both religious and political space.

14. (S/NF) Although President Aliyev and his senior advisors recognize the political risks posed by Azerbaijan's uneven economic growth and growing inflation, it is unclear whether they have the expertise, capacity and political will to take the difficult measures necessary to prevent the "Oil Curse." The GOAJ's reflexive, Soviet-style reaction to clamp down on any religious groups other than those approved by the state is counterproductive. While the GOAJ will point to "Wahabbist" groups such as the one that planned to attack the

BAKU 00001311 002 OF 005

U.S. Embassy as evidence that growing religiosity in Azerbaijan must be kept under tight controls, in fact, an easing of the strictures that prevent the development of legitimate moderate alternatives is essential. I hope that you can begin with President Aliyev and his senior advisors a dialogue on the importance of allowing and indeed encouraging development of moderate forms of Islam, and the need to allow citizens of all faiths the opportunity to freely express their religious views.

Regional Security Cooperation

15. (S/NF) Azerbaijan remains fully supportive of our regional security goals and has indicated it is open to seriously expanded cooperation in several key areas. President Aliyev told me that he is willing to consider sending an additional 120-man company to Iraq (ref a), and also is interested in exploring the possibility of additional peace-keeping contributions in Afghanistan as part of a Train-and-Equip Program. Following the recent exchange of letters between the Secretary and President Aliyev, Azerbaijan has embarked on new, unprecedented intelligence cooperation focused on Iran which could greatly advance our interests. Our intelligence cooperation with Azerbaijan is unique in this region, and has led to significant operational successes. President Aliyev recently told CIA Director Hayden that Azerbaijan is ready to undertake new cooperation in this area, and with specific reference to Iran (ref b). Azerbaijan also is ready to cooperate with us on Missile Defense, should the U.S. and Russia agree on a mechanism to incorporate the Gabala Radar Station into the Missile Defense structure. Given Azerbaijan's interest in Missile Defense and continuing anxiety about Russian plans to withdraw from the CFE Treaty, President Aliyev would appreciate a readout from you on the latest 2 2 discussions.

16. (C) Looming over all of these issues, of course, is Azerbaijan's continuing unease over its regional position. The unresolved Nagorno-Karabakh conflict remains at the top of Aliyev's policy priorities. The lack of recent progress in the Minsk Group discussions has fueled strong rhetoric from the President and senior ministers. Azerbaijan's perception that its burgeoning economic growth and military spending are tipping the regional strategic balance are fueling a new degree of popular pressure to "do something," not imminent in effect, but which we cannot discount going forward. We hear increasingly that the West's "failure" to resolve the conflict is used by those seeking to highlight double standards in the treatment of Christian Armenia vice Muslim Azerbaijan, and also increasingly fuels debate in government and society as to what Azerbaijan gains from its pro-Western orientation. Although the GOAJ adopted a well-moderated position on H.R. 106, the Azerbaijani public reacted sharply, interpreting the resolution as further evidence of a double standard in U.S. policy. Public sentiment is also squarely with Turkey in its growing tensions with Iraq over the PKK and the GOAJ has been vocal in its political support for Turkey on this issue. Turkish President Gul arrives in Baku for his first foreign bilateral visit November 6.

17. (C) Azerbaijan continues to keep a wary eye on Russia and Iran, balancing its real concerns over both countries' regional ambitions with a need to maintain positive, practical relations with both countries on a host of issues. Azerbaijan is increasingly worried about attempts by both Russia and Iran to influence internal developments. Since your last visit, Azerbaijan has shifted to a decidedly more assertive stance toward Russia, particularly with respect to regional energy projects. The GOAJ also has taken the unprecedented step of halting Russian television broadcasts and prosecuting an alleged Russian spy. Azerbaijani officials often note it is now an open Russian goal to pull Azerbaijan back into its sphere of influence.

18. (S) While Azerbaijan is careful to maintain a

non-confrontational public relationship with Iran, President Aliyev and his closest advisors privately characterize Iran as "very dangerous and unpredictable." Iranian support for a homegrown terrorist network (the "Mahdi Army," arrested in January and accused of surveilling and plotting against Western interests on Iranian orders) has increased GOAJ

BAKU 00001311 003 OF 005

anxiety about Iran. President Aliyev is seriously concerned with respect to how Iran might exploit democratic openings; for pro-reform arguments to succeed, we need to address this point. He has told senior officials that in order to counter the risks posed by its proximity to Iran, Azerbaijan needs "more integration into Euro-Atlantic structures" and "security guarantees, just in case" (ref c).

Energy Security

¶9. (C) Azerbaijan continues to lead regional efforts to strengthen and expand the East-West energy corridor. With up to one trillion cubic meters in new gas reserves and the political will to bring them to European markets, Azerbaijan could greatly enhance European energy security. Although he faced enormous pressure -- including personal pressure from President Putin -- following his decision not to buy Russian gas last year, President Aliyev remains committed to bringing Caspian gas to European markets by the end of this year. President Aliyev has repeatedly told us that U.S. and Azerbaijani energy interests are "completely aligned," and that he is especially interested in working with the U.S. in an intensified effort to bring Turkmenistan into the East-West corridor. At the same time, he has noted that there are "political costs" for Azerbaijan in its strong support for providing an alternative gas supply to Europe, and he reminds us that Azerbaijan does not need to export gas for economic reasons.

¶10. (C) Negotiations to realize Azerbaijan's regional energy ambitions have been moving slowly. Talks between Azerbaijan and the BP-led operating consortium have been difficult, in part due to Azerbaijan's insistence on resolving short-term disagreements worth potentially billions of dollars before discussing possible future development of Azerbaijan's oil reserves. This slowing in negotiations has also negatively affected efforts by the Consortium to seek the rights to develop the "ACG Deep Gas" field that is the largest source of gas reserves outside of the currently producing Shah Deniz Field. You should praise President Aliyev for Azerbaijan's historical commitment to the sanctity of its Production Sharing Agreements (PSAs) signed in the 1990s, and note that regardless of how the commercial dispute between Azerbaijan and the AIOC Consortium is solved, its early resolution within the parameters of the PSA will strengthen Azerbaijan's already strong reputation as a critical and reliable energy partner.

¶11. (C) Stage Two development of the Shah Deniz gas field is also being held up by the lack of progress in negotiations between Azerbaijan and Turkey concerning gas transit through Turkey, with Azerbaijan claiming that Turkey's insistence on a scheme whereby Turkey can buy at sub-market prices a percentage of Azerbaijani gas transiting through Turkey is unworkable and unfair. Gas transit through Turkey is an issue with major consequences for Azerbaijan and its ability to export its gas to European markets. Getting gas transit through Turkey "fixed" in a timely manner is essential both for the export of Azerbaijani gas to Europe but also to show Kazakhstan and Turkmenistan that a viable route for gas export to Europe exists outside of Russia. Although the USG can take no position on ongoing commercial negotiations between commercial entities within Azerbaijan and Turkey, you should urge President Aliyev to work with Turkey to create a political climate that encourages the resumption of bilateral discussions on gas transit through Turkey.

Democracy and Human Rights

¶12. (S/NF) Securing and advancing U.S. interests in all of these areas over the longer term -- security, intelligence cooperation, and energy -- depend on Azerbaijan's continued stability and long-term sustainable development. Given Azerbaijan's importance to a broad range of important U.S. interests, we have an important stake in Azerbaijan's success. Although President Aliyev and his closest advisors continue to affirm their commitment to democratic reform, Azerbaijan's progress since the 2005 election has been disappointing. The media environment is heavily restrictive, with transparently implausible criminal court cases against journalists and violent attacks against journalists that have

BAKU 00001311 004 OF 005

gone unprosecuted and unpunished. Freedom of assembly in practice is limited to one location far removed from the center of Baku, and NGOs' requests to hold protests routinely are turned down for "unacceptable content." Civil society feels increasingly under fire, and is worried that GOAJ plans for new, state financial support for NGOs will prove to be yet another instrument of control. The political environment soured immediately after the 2005 election and remains mired in vitriol. Opposition parties complain that the GOAJ has placed undue restrictions on their ability to organize and do basic grassroots work, and believe that they must have parity in electoral commissions in order to have a level playing field. Only a handful of opposition parties acknowledge that they too have a role to play in creating a positive environment by developing serious party platforms and engaging in a responsible dialogue with the GOAJ. The GOAJ in turn insists that the established opposition parties are "radicals" intent on seizing power through unlawful means and has not engaged in any meaningful dialogue, despite a pledge made by President Aliyev to then-DRL A/S Lowenkron in December 2006. IFES and the Council of Europe have organized a political party roundtable discussion on proposed changes to the Electoral Code, scheduled for November 9, which will be an important test of all parties' willingness to engage in a responsible political process. The opposition recently announced its intent to boycott the event if certain conditions are not met.

¶13. (C) The October 2008 presidential election presents a tremendous opportunity for President Aliyev to burnish Azerbaijan's democratic credentials at very little domestic political risk. All recent polling indicates that he is genuinely popular and can afford to give the opposition, civil society, and the media more political space without any risk to his own standing. As we did in the run-up to Azerbaijan's 2005 parliamentary election, it is essential that the U.S. deliver a clear vision of the steps we expect Azerbaijan to take to establish a more free and fair electoral climate -- steps which can provide the foundation for a positive evaluation of improvement in the conduct of the election. Key steps include a renewal of the presidential moratorium on criminal libel suits; a presidential pardon for journalists imprisoned on libel and other political charges; establishment of an independent, alternative dispute resolution mechanism for the press; full restoration of citizens' constitutional right to peacefully assemble with prior notification of the appropriate government bodies; adoption of the Venice Commission's recommendations on the composition of Electoral Commissions; and issuance of a presidential decree that ensures new state support for NGOs supports, rather than hinders, the development of civil society. President Aliyev also should renew all presidential decrees related to the free and fair conduct of the 2005 parliamentary elections.

Looking Beyond the Election

¶14. (C) In order to maintain and advance our interests, we need to demonstrate that the United States is a committed, long-term partner for Azerbaijan. We rely on Azerbaijan to help us meet our most important national security objectives, yet do not have the formal mechanisms in place to ensure that these vital objectives will continue to be met as regional tensions -- and pressures on Azerbaijan -- grow. While our ability to establish a more formal relationship with Azerbaijan is limited by both the Nagorno-Karabakh conflict and Azerbaijan's poor democratic record, it also is limited by a continuing apprehension -- and debate -- within Azerbaijan's ruling elite with respect to our true intentions toward Azerbaijan. Although President Aliyev has consolidated his power to a greater degree since your last visit, his administration continues to be split by differences over how deeply to embrace the West. Anti-Western elements argue that U.S. calls for democratic reform are a thinly veiled attempt at regime change, an argument that plays both to Aliyev's lingering insecurities vis-a-vis the United States and his growing sense that Azerbaijan, flush with billions in energy revenue, should pursue its own interests at its own tempo. Aliyev needs to hear a frank discussion of the broader regional picture and the possibilities for expanded bilateral relations, as these possibilities offer the only real incentives for reform in

BAKU 00001311 005 OF 005

the run-up to the 2008 election. Quite simply, we have a narrow window of opportunity to try to effect positive change in Azerbaijan, and this is an opportunity we cannot afford to lose. I look forward to welcoming you to Baku.
DERSE